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## German Trade Drive in Southeastern Europe

BY JOHN C. deWILDE

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# German Trade Drive in Southeastern Europe

BY JOHN C. deWILDE

*with the aid of the Research Staff of the Foreign Policy Association*

DURING the past few years Germany has quietly and effectively extended its trade relations with Southeastern Europe. The attention of the world was dramatically called to this expansion in June 1936 when Dr. Schacht, German Minister of Economics and President of the Reichsbank, visited a number of Balkan countries. It was then revealed that Germany's imports from the Danubian-Balkan region had risen 65 per cent from 1933 to 1935, while its exports had increased 37 per cent. This development was all the more remarkable because of the failure of many previous efforts to intensify trade relations among the countries of this area as well as between these states and Western Europe. Some form of economic collaboration had long been deemed necessary to emancipate Southeastern Europe from the confining customs barriers erected after the break-up of the Austro-Hungarian monarchy. Yet none of the numerous plans evolved had come to fruition. Projects to assure Balkan and Danubian products preferential treatment in Western European markets had failed owing to rivalry between France, Germany and Italy, and the refusal of certain countries to renounce the benefits of the most-favored-nation clause. Attempts to give the Little Entente and the Balkan bloc economic content had not yet passed the initial stage; and the effect of the Rome protocols of 1934, designed to stimulate trade between Italy, Austria and Hungary, had on the whole remained limited.<sup>1</sup>

Dr. Schacht's trip aroused no little speculation and uneasiness. Critics were quick to impute imperialist ambitions to the Reich and interpret its trade campaign as a revival of the historic *Drang nach Osten*, calculated to increase German influence in Southeastern Europe. They feared that Germany would seek to undermine the economic independence of Danubian and Balkan countries

and thereby alter their political orientation. While the Balkan countries became increasingly aware of the dangers inherent in too great dependence on the Reich, they realized at the same time that German trade had contributed materially to their economic improvement. In Germany itself foreign criticism of the trade program was excoriated as one more attempt to thwart Germany's desire for peaceful economic and political collaboration.

The Reich has always had close trade relations with Southeastern Europe. In 1913 Germany sold 14 per cent of its exports in this area, including Austria-Hungary and Turkey. There it also bought 9.5 per cent of its imports. In 1929 exactly the same proportion of its imports came from this region, but the export percentage had declined slightly to 12.3. Industrial Germany and the agricultural and raw material producing countries of the Southeast naturally complement each other. The Reich can use the tobacco, fruit, eggs, lumber, fodder, fibres, oils and fats, and ores of the Balkans, where in turn it finds a ready market for its iron and steel, chemical and pharmaceutical products, machines and a wide range of manufactures. These natural connections, however, can hardly account for the extraordinary rise in trade which has taken place since 1933. Excluding Austria, with which German trade has continued to decline, Germany's imports from the Danubian and Balkan bloc have increased from a low point of 235.4 million marks in 1933 to 412.5 million in 1935, and may be expected to exceed 450 million in 1936 on the basis of totals for the first six months of the year. During the same time, exports rose from 191.6 to 319.9 million, and should reach 420 million in 1936.<sup>2</sup>

German trade with the Southeast has developed in accordance with ideas expounded by National Socialist theorists, who deny that restoration of world trade on a "liberalistic" basis is either

1. Cf. League of Nations, *World Economic Survey 1935/36* (Geneva, 1936), p. 195.

2. Cf. table, p. 216.

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possible or desirable. They believe that international trade must more and more be reorganized along regional lines. In their opinion, Germany must become the centre of a regional economy or *Grossraumwirtschaft* on the European continent. While they differ about the geographic limits of this regional economy, they agree that Southeastern Europe must form an important and integral part of it.<sup>3</sup> Within this *Grossraumwirtschaft*, trade must be more definitely organized and production so directed as to make the economies of its constituent members complementary rather than competitive.<sup>4</sup> German interests are held to require the importation of as large a quantity of raw materials and foodstuffs as possible from the European continent, particularly from countries with which communications would not be severed in time of war.<sup>5</sup> In this category are included, above all, the countries of Southeastern Europe. There it is proposed to stimulate the production of fibres, the cultivation of vegetable oils and the development of mineral resources.

It must not be supposed that the creation of a regional economy has been the only, or even the dominating, motive in German trade expansion toward the Southeast. Dr. Schacht, actual dictator of German foreign trade, has apparently never endorsed the concept of *Grossraumwirtschaft*. He has repeatedly proclaimed his readiness to trade with all countries, European and overseas, but has contended that under present circumstances Germany could buy only where it could sell.<sup>6</sup> Unlike most other customers of Germany, the Balkan and Danubian countries acquiesced in this bilateral canalization and balancing of trade: as a result, their share of German commerce rose rapidly. Dr. Schacht, however, has found some common ground with National Socialist theorists. Like them, he favors intensifying trade relations with countries whose economy complements that of Germany, but he includes in this class South America as well as Southeastern Europe.<sup>7</sup>

3. Cf. speech of Dr. Posse, secretary in the Ministry of Economics, as reported in *Der deutsche Volkswirt*, December 15, 1933; Dr. Hans P. Danielcik, "Das deutsche Exportproblem" in *Ausfuhr ist Not (Wirtschaftlichsoziale Fragen, Heft 2, Stuttgart, Elke Verlag, 1934)*; and Dr. Alfred Ringer, "Neubau des Aussenhandels im nationalsozialistischen Deutschland," *Der deutsche Volkswirt*, August 18, 1933.

4. Dr. Max Hahn, "Importverlagerung als vordringliche Aufgabe der deutschen Handelspolitik," *Der deutsche Volkswirt*, December 22, 1933.

5. Cf. statement of Werner Daitz, a director of the Foreign Relations Department of the National Socialist party, *Berliner Tageblatt*, June 4, 1933.

6. Cf., for instance, the speech delivered by Dr. Schacht at the Leipzig Spring Fair in 1935, *Deutschland in der Weltwirtschaft* (Berlin, Zentralverlag, 1935).

Only to a minor extent has German trade penetration been facilitated by the conclusion of regular commercial treaties. The National Socialist government has negotiated complete trade treaties with only two states—Yugoslavia and Rumania. A number of agreements supplementing existing treaties have also been negotiated, of which the one concluded with Hungary in February 1934 is probably the most important. These agreements are significant not so much for the trade they foster, as for their indication of the direction in which Germany would like to see the economy of Southeastern Europe develop. Thus German tariff concessions cover in many cases commodities the production of which Germany wants to stimulate in that region. The Reich's accords with Yugoslavia, Rumania and Hungary<sup>8</sup> provide, moreover, for the creation of commissions whose duty it is to follow the application of the agreements and foster reciprocal trade. In the case of Yugoslavia and Hungary these commissions are charged particularly with the study of ways of adjusting the economy of these states to that of Germany.

The actual machinery for the orientation of German foreign trade toward Southeastern Europe was provided in clearing agreements, which obviated the necessity of using foreign exchange. Under these accords, importers in each country make payments in their own national currency, and these are deposited in a clearing account usually established with the Central Bank. Out of this account exporters are in turn reimbursed. If imports fail to equal exports, a balance accumulates in favor of one of the two parties to the agreement. Since the transfer of foreign exchange is in most cases not allowed, such a balance can be liquidated only if the creditor country curtails its sales to, or increases its purchases from, the debtor state.<sup>9</sup>

Germany first opened negotiations for clearing agreements with Danubian and Balkan countries in 1932. At that time its own foreign exchange position was not yet precarious and its principal object was to secure, through clearing, payment for its current exports and the liquidation of commercial claims which had been impeded by transfer restrictions adopted in Southeastern Europe. With the continued decline of German exports in

7. Cf. speech delivered at Belgrade, as reported in the *Berliner Boersenzeitung*, June 15, 1936; also Hermann Reinhardt, "Die Südosteuropareise Dr. Schachts," *Der deutsche Volkswirt*, July 3, 1936.

8. For the text of these treaties, cf. *Reichsgesetzblatt*, Part II, 1934, p. 301; 1935, p. 311; and 1934, p. III.

9. For an analysis and description of clearing agreements, cf. League of Nations, *Enquiry into Clearing Agreements* (Geneva, 1935), and International Chamber of Commerce, *Clearing Agreements* (Paris, 1936).

1933 and 1934 the Reich's supply of foreign exchange dwindled rapidly. Germany then tried to divert its purchases as far as possible to countries with which it had clearing arrangements and where it was consequently not required to pay in foreign exchange. It began to buy heavily in Southeastern Europe, paying prices well in excess of world levels in order to outbid its competitors and link those countries more closely to the Reich. Often it bought more than its own requirements and resold the surplus abroad in return for foreign exchange. Not only was Germany's normally favorable trade balance with Hungary and Yugoslavia reversed, but the unfavorable balances with other Bal-

kan countries were increased. The export surplus in German trade with the Southeast in 1932 was converted into an import surplus of 93.8 and 92.6 million Reichsmarks in 1934 and 1935 respectively. Substantial clearing balances therefore accumulated in Berlin to the credit of Southeastern Europe. German trade debts to five Balkan countries toward the middle of 1936 were estimated at about 100 million Reichsmarks, or almost a third of their total imports from Germany during 1935.<sup>10</sup> To persuade these states to liquidate their Berlin balances by buying more manufactured goods from the Reich, particularly armaments, Dr. Schacht visited Budapest, Sofia, Athens and Belgrade in June.<sup>11</sup>

## GERMAN IMPORTS FROM SOUTHEASTERN EUROPE\*

Origin	1929		1933		1934		1935		1935-6 mos.		1936-6 mos.	
	Mil. RM	%	Mil. RM	%	Mil. RM	%	Mil. RM	%	Mil. RM	%	Mil. RM	%
Turkey	75.6	0.6	37.9	0.9	67.5	1.5	93.4	2.2	42.9	2.0	52.0	2.4
Hungary	89.3	0.7	34.2	0.8	63.9	1.4	77.9	1.9	26.5	1.2	46.6	2.2
Rumania	211.0	1.6	46.1	1.1	59.0	1.3	79.9	1.9	36.7	1.7	32.9	1.5
Greece	103.7	0.8	53.4	1.3	55.3	1.3	58.5	1.3	23.6	1.1	31.3	1.5
Yugoslavia	60.9	0.4	33.5	0.8	36.3	0.8	61.4	1.5	29.1	1.4	33.3	1.6
Bulgaria	51.2	0.4	31.3	0.7	33.7	0.8	41.4	1.0	11.8	0.6	21.6	1.0
Albania	0.1	0.0	0.0	0.0	0.1	0.0	.....	.....	.....	.....	.....	.....
Austria	201.7	1.5	57.6	1.4	66.3	1.5	71.1	1.7	39.1	1.8	38.6	1.8
Total Southeastern Europe	793.5	5.9	294.0	7.0	382.1	8.6	483.6	11.6	209.7	9.8	256.3	12.1

## GERMAN EXPORTS TO SOUTHEASTERN EUROPE\*

Destination	1929		1933		1934		1935		1935-6 mos.		1936-6 mos.	
	Mil. RM	%	Mil. RM	%	Mil. RM	%	Mil. RM	%	Mil. RM	%	Mil. RM	%
Turkey	72.5	0.5	36.3	0.8	50.9	1.2	67.3	1.5	33.4	1.7	36.1	1.6
Hungary	146.8	1.1	38.1	0.8	39.6	0.9	62.9	1.5	26.2	1.3	39.8	1.8
Rumania	164.1	1.2	46.0	0.9	50.9	1.2	63.8	1.5	28.5	1.5	50.2	2.2
Greece	76.8	0.6	18.7	0.4	29.3	0.7	49.1	1.1	20.5	1.0	29.7	1.3
Yugoslavia	152.6	1.1	33.8	0.7	31.5	0.7	36.9	0.9	16.5	0.8	31.7	1.4
Bulgaria	44.7	0.3	17.7	0.4	19.3	0.5	39.9	0.9	17.7	0.9	22.8	1.0
Albania	1.4	0.0	1.0	0.0	0.5	0.0	.....	.....	.....	.....	.....	.....
Austria	441.2	3.3	120.7	2.5	106.7	2.6	107.9	2.5	48.7	2.4	52.9	2.3
Total Southeastern Europe	1,100.1	8.2	312.3	6.4	328.7	7.9	427.8	10.0	191.5	9.7	263.2	11.7

\*Compiled from *Statistisches Jahrbuch für das deutsche Reich*, 1930 & 1935 and from *Wirtschaft und Statistik*, 2 Feb. Heft; 2 Mai Heft & 2 Aug. Heft, 1936.

## HUNGARY

German trade with Hungary continued to fall until 1934. Exports dropped from 146.8 million marks in 1929 to 38.1 million in 1933, and imports declined from 89.3 to 34.2 million. The export surplus almost disappeared. On December 14, 1933

## 10. BERLIN CLEARING BALANCES: SPRING 1936\*

Greece	about	30,000,000	Reichsmarks
Hungary	"	25,000,000	"
Yugoslavia	"	21,000,000	"
Rumania	less than	18,000,000	"
Bulgaria	about	10,000,000	"

\*Quoted from *Financial News*, June 4, 1936, in "Dr. Schacht in the Balkans: The Economic Background," *The Bulletin of International News*, July 4, 1936.

11. Cf. Gerhard Schacher, "Les méthodes et les buts de la politique commerciale de l'Allemagne," *L'Europe Centrale*, June 27, 1936.

the commercial treaty concluded in 1931 finally went into effect, although shorn of the provision for preferential treatment of Hungarian grain to which certain countries had objected.<sup>12</sup> To counterbalance the cancellation of this provision Hungary withheld certain tariff concessions. In a supplementary agreement of February 21, 1934, however, these concessions covering a wide range of manufactures were made available to Germany. In return, the Reich granted liberal quotas for Hungarian wheat, corn, barley, lard, bacon, cattle and other agricultural products. At the same time Germany agreed to take the entire crop of flaxseed

12. Cf. Karsten Andresen, *Die deutsch-ungarischen Wirtschaftsbeziehungen und das Problem ihrer engen Gestaltung* (Hamburger Wirtschafts- und sozialwissenschaftliche Schriften, Heft 33, Rostock, Hinstorff, 1935).

produced on 58,000 acres in Hungary, and even more during the following year.<sup>13</sup>

Under the stimulus of these agreements, German purchases in Hungary rose to 63.9 and 77.9 million marks in 1934 and 1935 respectively. In 1935 Germany took 37 per cent of Hungary's agricultural exports.<sup>14</sup> In an agreement concluded March 3, 1936, the Reich undertook to buy even more farm products, including larger quantities of cattle, pork, lard and ham.<sup>15</sup> Hungarian purchases in Germany lagged behind. In 1934 the Hungarian export surplus to Germany totaled 24.3 million marks, and even though Hungary subsequently began to buy heavily in Germany, the surplus still amounted to 15 million in 1935 and 6.8 million in the first half of 1936.

For Hungarian agricultural interests the German trade policy has proved a great boon, since the Germans have not only bought large quantities of products but also paid extremely remunerative prices. To the industrialists, however, the policy has been anathema. Since Germany and Italy have absorbed almost all of Hungary's agricultural exports, the country has had little but manufactures to sell in other markets.<sup>16</sup> For these manufactures, however, it needs raw materials which cannot for the most part be obtained in Germany or Italy. Hungarian authorities are therefore determined to restrict exports to Germany and increase them to countries which can pay free foreign exchange in return. Should Budapest succeed in carrying out this policy in spite of pressure from agricultural interests, Germany's share in Hungarian export and import trade—which reached a record of 26.5 and 24.4 per cent in the first half of 1936—will decline in the future.

#### YUGOSLAVIA

German exports to Yugoslavia reached the lowest point as late as 1934 and imports during that year were only slightly higher in value than in 1933. Unsettled treaty relations impeded the development of trade until May 1, 1934, when a regular

13. "Der deutsch-ungarische Zusatzvertrag," *Der deutsche Volkswirt*, March 2, 1934. In an agreement of September 10, 1933 Germany had already undertaken to buy 25,000 tons of flaxseed at a price exceeding the world level by 45 per cent. Andresen, *Die deutsch-ungarischen Wirtschaftsbeziehungen und das Problem ihrer engen Gestaltung*, cited, p. 94.

14. Gerhard Schacher, "Les méthodes et les buts de la politique commerciale de l'Allemagne: en Hongrie," *L'Europe Centrale*, July 25, 1936.

15. *Ibid.*

16. The share of manufactured goods in Hungary's exports to the United Kingdom, which was never more than 28 per cent, rose to over 50 per cent in 1935. *Ibid.*

commercial treaty was signed.<sup>17</sup> The German government lowered duties and granted liberal import quotas on many agricultural products, and Yugoslavia reduced its tariff on such German manufactures as machines, electro-technical products and chemicals. German imports soared from 36.3 million marks in 1934 to 61.4 million the following year and 33.3 million for the first half of 1936. The Reich's share in Yugoslav exports rose from 11.3 per cent in 1933 to 18.7 per cent in 1935 and exceeded one-quarter in 1936. Meanwhile, Yugoslavia's imports rose much more slowly, so that a considerable export surplus developed and the country's clearing balance in Berlin reached 25 million marks at the beginning of 1936.

In 1936 the Yugoslav government undertook to increase its imports considerably, but at the same time Germany agreed to buy more Yugoslav goods. Thus, an agreement reached in March provided that Krupp should re-equip and renovate the large Zenica iron and steel works in Yugoslavia for the sum of 120 million marks and that Germany should furnish quantities of material for the Yugoslav railways and post office. In return, the Reich promised to double its 1935 purchases in Yugoslavia.<sup>18</sup> In the first half of 1936 German exports to Yugoslavia totaled 31.7 million marks, as compared with only 16.5 million in the corresponding half of 1935. Imports, however, rose further to 33.3 million, so there was no reduction in the clearing balance. As a result of Dr. Schacht's visit in June, the Yugoslav government apparently agreed to buy more German goods. In order to stimulate purchases from states with which it had concluded clearing agreements, notably Germany, the government published an order on June 13 placing under strict control a wide range of imports from other countries.<sup>19</sup>

Although the Yugoslav clearing balance had declined to about 15.5 million marks by September 1936, difficulties developed during that month. Anxious to obtain free foreign exchange, the Yugoslav government had been excepting an increasing number of its exports from clearing. In retaliation Germany ceased granting permits for imports from Yugoslavia at the end of September. Negotiations on this issue began on October 10, and it remains to be seen whether the present hitch represents

17. *Reichsgesetzblatt*, Part II, 1934, p. 301.

18. Cf. Gerhard Schacher, "Les méthodes et les buts de la politique commerciale de l'Allemagne: en Yougoslavie," *L'Europe Centrale*, July 4, 1936; also "Dr. Schacht in the Balkans: The Economic Background," cited, and *Der deutsche Volkswirt*, April 9, 1936.

19. "Südslawien: Neue Wege in der Handelspolitik," *Wirtschaftsdienst*, July 3, 1936.



more than a temporary halt in the development of trade between the two countries.<sup>20</sup>

#### RUMANIA

Although Rumania has long been Germany's leading customer and source of supply in the Balkans, trade between the two countries had declined to about a quarter of its former value by 1933. The following year witnessed a considerable revival, further stimulated by the conclusion on March 23, 1935 of a new commercial treaty providing for reciprocal duty concessions.<sup>21</sup> Taking advantage of the clearing agreement also in effect between the two countries, Germany rapidly increased its purchases from 46.1 million marks in 1933 to 79.9 million in 1935. Its exports rose only from 46 to 63.8 million. Oil, which Germany could obtain from other countries only through the expenditure of foreign exchange, made up an increasingly large proportion of Rumanian sales to the Reich. Rumanian oil shipments to Germany mounted from 181,776 tons in 1933 to 673,436 in 1935.<sup>22</sup> In the first half of 1936 mineral oil constituted 60 per cent of the value of Germany's imports from Rumania as against 34 per cent in the corresponding half of the previous year. The Reich has also been encouraging the cultivation of soya beans in Rumania. This year a German company, the *Société Allemande du Soya*, has aided cultivators of soya beans by guaranteeing minimum prices and delivering machines and equipment on credit. The acreage devoted to this crop was to be raised from 25,000 to 100,000 hectares in 1936.<sup>23</sup>

The rapid increase of exports to Germany caused growing concern in Bucharest. The large clearing balance accumulated by Rumania in Berlin could be used only for the purchase of German goods. To reduce this frozen balance the government, in December 1935, introduced measures designed to stimulate exports to countries which could pay in free exchange.<sup>24</sup> At the same time it admitted larger imports of German manufactured goods. This policy bore fruit. In the first half of

1936 German purchases fell below the level of the corresponding period in 1935, while exports rose from 28.5 to 50.2 million marks. Rumania's export surplus turned into an import surplus, thus lowering the clearing balance. The Rumanian government has also been successful in limiting the quantity of oil which Germany can pay in clearing marks. With the continuous rise of German oil purchases, the Rumanian National Bank had been deprived of an important source of foreign exchange. After prolonged negotiations the German government, on September 27, 1936, accepted an addendum to the clearing agreement authorizing the Rumanian National Bank to fix the proportion of oil to be paid in foreign exchange whenever German oil purchases in Rumania exceed 25 per cent of the value of imports from that country.<sup>25</sup>

#### GREECE

As in the case of other Southeastern countries, the expansion of trade with Germany has created a dilemma for the Greek government. The steady increase since 1933 in German purchases of tobacco, fruit and other products has undoubtedly benefited Greek peasants. In 1935 Germany took 44 per cent of Greece's total tobacco exports<sup>26</sup> and paid prices well above the world market level. On the other hand, a consistent export surplus in trade with Germany led to the freezing of large clearing balances in Berlin. The Greek authorities tried to meet this situation by increasing import quotas for German goods. Imports rose from 18.7 million marks in 1933 to 49.1 million two years later; and in the first half of 1936 they totaled 29.7 million. Germany's share in Greek import trade had risen to 22.3 per cent, but at the same 45.1 per cent of Greek exports went to the Reich. Larger imports from Germany were not particularly welcome, not only because German goods were considerably more expensive than those of other countries, but also because Greece could not obtain in Germany the raw materials required by its growing industries.<sup>27</sup> The Greek government, however, appears to have reluctantly accepted Dr. Schacht's proposal that Greece buy still more goods from the Reich, particularly armaments. In July the Greek press reported that the vice-governor of the Bank of Greece had reached an agreement with the Berlin government providing for the delivery of war material and railway equipment to Greece.

20. Cf. *The Times* (London), October 7, 1936, and *Wirtschaftsdienst*, October 9, 1936, p. 1459.

21. *Reichsgesetzblatt*, Part II, 1935, p. 311.

22. E. C. Donaldson Rawlins, *Economic Conditions in Germany* (London, His Majesty's Stationery Office, 1936), p. 163. In 1935 Germany covered 17.9 per cent of its oil requirements in Rumania, compared with only 6.8 per cent in 1933.

23. *Chronologie Economique Internationale*, April 1936, p. 128. In September of this year it was also announced that the German Dye Trust had founded a Rumanian enterprise for the cultivation of soya beans and obtained an export monopoly for the product. *Ibid.*, September 1936, p. 341.

24. Cf. *Wirtschaftsdienst*, September 18, 1935.

25. *Chronologie Economique Internationale*, September 1936, p. 341.

26. Cf. *Der deutsche Volkswirt*, July 3, 1936, p. 1983.

27. *Ibid.*

The Germans undertook not to charge more than world market prices.<sup>28</sup> Meanwhile, the Bank of Greece has since June 23 sought indirectly to discourage sales to Germany by suspending the system through which Greek exporters received advances on their shipments.<sup>29</sup>

#### BULGARIA

Germany has come to dominate Bulgaria's foreign trade more completely than that of any other country. Its share in Bulgarian import trade has risen from 25.9 in 1932 to 63.2 per cent in the first six months of 1936. In the latter period it took 54.3 per cent of the country's entire exports, as against 26 per cent in 1932. Germany bought up all surplus tobacco stocks and now imports more than half of Bulgaria's crop, paying highly remunerative prices. With German aid Bulgarians are also fostering the production of oil seeds, particularly soya beans. The soya bean acreage increased from only 12 hectares in 1933 to 38,550 in 1935, and the product goes almost entirely to the German Dye Trust.<sup>30</sup> Although there has been little alarm in Bulgaria concerning the country's increasing economic dependence on Germany, the government has been anxious to persuade the Reichsbank to release part of the Bulgarian clearing balance for the purchase of foreign goods which are usually imported through Germany. In contrast to previous years, trade between the two countries was almost balanced in 1935, and during the first half of 1936 Bulgaria even imported considerably more from Germany than it sold.

#### TURKEY

German-Turkish trade has also undergone rapid expansion since 1933. Turkey is the only Southeastern country with which German trade in 1935 exceeded pre-depression levels. In that year the Reich took 49 per cent of Turkey's exports and supplied 38 per cent of its imports.<sup>31</sup> These figures compare with only 13.5 and 23.3 per cent in 1932. During the current year Germany is reliably reported to be absorbing 60 per cent of Turkish exports. Although three trade conventions<sup>32</sup> supplementing the Turkish-German commercial treaty of May 27, 1930 have been concluded, it has been primarily

through the clearing agreement that Germany has found it possible to purchase larger quantities of cotton, raisins, tobacco, hazelnuts and walnuts, wheat, figs, chromite, wool, etc. Germans have not been equally successful in obtaining contracts in Turkey. Despite keen competition from Krupp, a British company obtained in June 1936 the contract for the construction and equipment of a big iron and steel plant.<sup>33</sup> Negotiations for large orders in connection with rearmament of the Straits have apparently also failed to materialize.

In other Southeastern European countries German economic penetration has made little progress. Albanian foreign trade, which is rather insignificant, continues to be dominated by Italy, although the proportion of Albania's imports supplied by Germany has steadily risen from 2 per cent in 1927 to 8.1 per cent in 1935. Unsettled political relations with Austria have prevented the expansion of trade with that country. The Austro-German political accord of July 11, 1936 may lead to closer economic relations. A commission has been established to explore trade possibilities.<sup>34</sup>

#### A GROSSWIRTSCHAFTSRAUM?

German trade policy in Southeastern Europe has undoubtedly met with a measure of success during the past few years. In the first half of 1936 Germany derived 12.1 per cent of its imports from this region, as compared with only 7 per cent in 1933. Since that year the proportion of its exports going to Southeastern Europe has risen from 6.4 to 11.7 per cent. At the same time the Balkan and Danubian countries have become increasingly dependent on Germany both as a market and as a source of supplies. Excluding Albania, the proportion of their foreign trade with Germany ranges from 17 to 60 per cent. Obviously, this development has its political as well as its economic implications. No country economically dependent on the Reich will lightly adopt policies hostile to the German government. Germany's trade advance in the Southeast is interesting also for its possible bearing on Italo-German relations. With the exception of Austria and Hungary, the German share in Danubian and Balkan trade has been progressing largely at the expense of the Italian. This relative decline of Italian trade, although hastened by the application of sanctions, had already become evident several years before.

It seems doubtful, however, that the German share in Danubian and Balkan trade will greatly

28. *Eleftheron Vima*, July 23, 1936.

29. *Der deutsche Volkswirt*, July 3, 1936, p. 1983.

30. "Dr. Schacht in the Balkans: The Economic Background," cited.

31. *Der deutsche Volkswirt*, July 24, 1936, p. 2149-50.

32. *Reichsgesetzblatt*, Part II, 1934, p. 171; 1935, p. 384; and 1936, p. 161.

33. "Dr. Schacht in the Balkans: The Economic Background," cited.

34. *Wirtschaftsdienst*, August 14, 1936, pp. 1166-67.

increase in the future. For Germany the results of the present policy do not warrant an optimistic view of the possibility of creating a more or less self-sufficient *Grosswirtschaftsraum* or regional economy including Southeastern Europe. This area can by no means fully satisfy Germany's requirements of foodstuffs and raw materials. In 1935 the region supplied about 41 per cent of its wood imports, 20 per cent of its pulp and oil, 55 per cent of its bacon and meat, and 45 per cent of its lard.<sup>35</sup> Fully exploited, the Southeast might furnish still larger quantities of grain, meat, fruit and dairy products, and cover the Reich's import requirements of tobacco, timber, pyrites, petroleum, bauxite, and certain vegetable oils. It could only supply a small part of German imports of cotton, wool, silk, copper, manganese and mercury, and supply none of the need for coffee, cocoa, tea, rubber, tin, tungsten, vanadium, molybdenum, platinum, phosphates, jute, manila hemp, sisal,

palm oil and copra.<sup>36</sup> Moreover, the Reich has had to pay more for its purchases in this region than on the world market. German critics of the *Grosswirtschaftsraum* theory have pointed out that German trade is so evenly distributed over the entire globe that it is difficult to concentrate on exchange with any one region while neglecting others.<sup>37</sup> Even today only 12 per cent of German commerce is with Southeastern Europe. In 1929 trade with the United States alone constituted almost as large a percentage of the total. It now appears that the transfer of German trade to Southeastern Europe has practically reached its limit, and that the German government is anxious to expand its economic relations with overseas countries. In the first half of 1936 the percentage share of Europe in German imports and exports declined, while imports from Asia, Africa and America increased. Even in the United States, Germany is buying more today than in 1935.

GERMANY'S SHARE IN THE TRADE OF SOUTHEASTERN EUROPE

	1927		1930		1932		1934		1935		1936-6 mos.	
	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
Hungary	17.8	13.3	21.0	10.2	22.5	15.2	18.2	22.1	22.6	23.8	24.4	26.5
Yugoslavia	12.3	10.6	17.6	11.7	17.7	11.3	13.9	15.4	16.2	18.7	23.5	25.4
Greece	7.4	21.3	10.1	23.5	9.7	14.5	14.7	22.5	18.7	29.0	22.3	45.1
Rumania	22.3	18.6	25.1	18.8	23.7	12.3	15.5	16.6	24.4	16.6	37.8	19.5
Bulgaria	21.0	23.0	23.2	26.2	25.9	26.0	40.4	42.8	53.5	48.0	63.2	54.3
Albania	2.0	*	5.0	*	4.9	*	5.2	*	8.1	*	†	†
Turkey	14.2	9.3	18.6	13.1	23.3	13.5	25.5†	18.9†	†	†	†	†
Austria	16.9	18.4	21.0	17.5	20.4	16.5	17.1	15.8	16.6	15.6	17.0	16.1

\*Negligible

†Not available

‡1933

Southeastern Europe also has no desire to become more dependent on Germany. During the last few years heavy German purchases at good prices have considerably benefited the peasants of these countries, particularly at a time when other markets were closed. But as sales to Germany increased, the supply of free foreign exchange became steadily smaller. This foreign exchange stringency has proved a serious handicap to growing industries which need foreign raw materials, for the most part not obtainable in Germany. The proceeds of exports to the Reich could be spent only for German goods which were often not needed and, owing to overvaluation of the mark, more expensive than those of other countries. Now that the Italian, French and Czech currencies have been devalued, the disparity between the prices charged by Germany and those of its competitors will further increase. True, so long as the Reich

continues to make large purchases in the Balkans, the countries in that region will have no alternative but to import equally large quantities of German goods. Nevertheless, there will be a growing temptation to limit sales to Germany.

In the last analysis the expansion of German trade with Southeastern Europe has been part of the general trend toward the uneconomic, bilateral canalization of trade. It has grown out of foreign exchange restrictions and clearing agreements. With the advent of more stable currency relations, trade will tend to readjust itself in more natural channels. Already the disappearance of the gold bloc has removed one of the obstacles to the restoration of normal trade relations. If and when the German government readjusts the value of the mark and abolishes its foreign exchange control and clearing agreements, Germany's share in Danubian and Balkan commerce will probably decline, while its trade with the rest of the world may show considerable recovery.

35. "Germany Looks South-East," *The Economist*, June 20, 1936.

36. Cf. "Dr. Schacht in the Balkans: The Economic Background," cited.

37. Dr. Walter Grävell, "Die Zukunft des Aussenhandels," in *Ausfuhr is Not*, cited, pp. 27-31.